

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T2, 2018/ 2019

BIF7104 – INTERNATIONAL FINANCE
(MBA Full Time)

1st FEBRUARY 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consist of **THREE (3)** pages (including the cover page).
2. Answer **ALL** questions. The marks distributions are given in parentheses.
3. Write all your answers in the Answer Booklet provided.

QUESTION 1 (50 MARKS)

KUALA LUMPUR: Bank Negara Malaysia (BNM) is further liberalising the administrative rules on foreign exchange transactions as part of its continued effort to enhance the flexibility of the economy and promote greater efficiency in the conduct of international trade and a conducive business environment in Malaysia so as to strengthen the linkages with the regional and global economies.

In a statement on Wednesday, Aug 18, the central bank said that with immediate effect, a resident is able to undertake settlement of international trade in goods and services with a non-resident in ringgit, in addition to settlement using foreign currencies. Exporters and importers are therefore, free to determine the currency of settlement for international trade in goods and services which will facilitate the management of currency mismatches and reduce currency conversion costs, it said. All settlements in ringgit by a non-resident will need to be conducted through the non-resident's ringgit account maintained with licensed onshore banks. Non-residents can convert and hedge foreign currency into ringgit with licensed onshore banks or with the appointed overseas branches of banking groups of the licensed onshore banks.

BNM said a resident company was now free to borrow any amount in foreign currency from its non-resident non-bank related company, in addition to its non-resident non-bank parent company. "Thus, all limits on cross-border foreign currency inter-company borrowings are abolished. This is to provide greater flexibility on sources of competitive financing for the real sector as well as to enhance the management of financial resources within the corporate group" it said. The central bank also said the limit on anticipatory hedging for current account transactions with licensed onshore banks is also abolished to facilitate more effective risk management by residents. "With this liberalisation, there will be no threshold limits on hedging for current account transactions by residents with the licensed onshore banks," it said.

Source: The Edge, 10th August 2010

- a) What are the advantages of liberalization of foreign exchange transactions policies? Explain. (15 marks)
- b) Explain the drawbacks of the liberalization of foreign exchange policies to the country. (15 marks)
- c) What are the costs and benefits to be considered for intercompany fund-flow mechanism of multinational companies (MNCs)? (10 marks)
- d) How multinational companies (MNCs) minimize their goods' transaction cost? (10 marks)

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QUESTION 2 (25 MARKS)

The president of Malawi has asked you to advise him on the likely economic consequences of the following policies designed to improve Malawi's economic environment. Describe the consequences of each policy, and evaluate the extent to which these proposed policies will achieve their intended objective.

- a) Expand the money supply to drive down interest rates and stimulate economic activity. (7 marks)
- b) Increase the minimum wage to raise the incomes of poor workers. (7 marks)
- c) Impose import restrictions on most products to preserve the domestic market for local manufacturers and, thereby, increase national income. (5 marks)
- d) Fix the nominal exchange rate at its current level in order to hold down the cost to Malawi consumers of imported necessities (assume that inflation is currently 100% annually in Malawi). (6 marks)

QUESTION 3 (25 MARKS)

- a) Identify the competitive advantages that a firm in each category below must have to be a successful multinational.
 - (i) Raw materials seekers (8 marks)
 - (ii) Market seekers (6 marks)
 - (iii) Cost minimizers (6 marks)
- b) What is the difference between a foreign bond and a Eurobond? (5 marks)

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